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Bulletin No. 19 of 2016
The Transitional Qualified Forest
Exemption and Specific Tax
November 29, 2016

TO: All Certified Assessing Officers and Technicians

FROM: State Tax Commission

SUBJECT: The Transitional Qualified Forest Property Exemption and Specific Tax

On June 28th, Governor Snyder signed into law Public Acts 260, 261, and 262 of 2016. These acts provide an opportunity for landowners to transfer Commercial Forest property into the Qualified Forest Program (QFP) without payment of a Commercial Forest Reserve withdrawal penalty. Instead, the legislation provides for a graduated return to ad valorem property taxes by allowing a five (5) year incremental return to full tax liability. This is accomplished by the creation of the Transitional Qualified Forest Property (TQFP) exemption and specific tax.

P.A. 260 of 2016

Act 260 creates the “Transitional Qualified Forest Property Specific Tax” for taxes levied after December 31, 2015. To be “Transitional Qualified Forest Property” the property must have previously been Commercial Forest (commonly referred to as CFR) property and must qualify for and have been approved as Qualified Forest Property under MCL 211.7(jj)[1]. Further:

1. The property must have been owned by the current owner no later than September 1, 2016,
2. The property must have been CFR no later than September 1, 2016, and
3. The application must be made by September 1, 2021.

If a landowner withdraws property from the Commercial Forest exemption program provided for in Section 51108(5) [MCL 324.51108] of the Natural Resources and Environmental Protection Act, he or she may apply to have the forest land determined to be Transitional Qualified Forest Property (TQFP) for a period not to exceed 5 years. The exemption is limited to a total of 160 acres within each township. When notified of the exemption (through the receipt of the recorded qualified Forest Property Affidavit and a copy of the recorded CRF withdrawal certificate), the assessor shall exempt the property from the collection of ad valorem taxes until December 31 of the year in which the property is no longer TQFP. The assessor determines the assessed and taxable values in the same manner as for other properties but instead of paying ad valorem tax, the owner pays a specific tax that is equal to the greater of;

- The specific tax calculated under Section 51106 of the Natural Resources and Environmental Protection Act (the Commercial Forest specific tax); or,

Transitional Qualified Forest Property Exemption

- The amount calculated by multiplying the number of mills that would be assessed if the property was not exempt but *was* treated as Qualified Forest Property, by the property's Taxable Value, and then multiplying that product by 20% (.20) in the first year, and increasing in increments of 20% (.20) in each successive year, until the multiplier is 100% (1.00). The calculation also adds new millage at 100%. However, for purposes of the calculation, newly-voted renewal millage is not deemed to be new millage and, instead is levied at the same percentage as the millage which existed at the time the property became TQFP.

The tax is payable at the same times as ad valorem taxes and is distributed pro rata to levy units based on the ratio of their ad valorem millage to the total millage. It is the interpretation of the State Tax Commission that new millage, if any, is also distributed pro rata. The collecting officer must submit a form to the Michigan Department of Treasury showing the amount of the disbursement to each levy unit. An annual fee is imposed on each parcel of TQFP calculated in the same amount and manner as the fee imposed on Qualified Forest Property.

If the use of the property is changed from Qualified Forest Property, the owner must file a rescission within 90 days. Further, if the Michigan Department of Agriculture and Rural Development determines that the property is not TQFP, it may direct the assessor to put the property on the roll.

After the 5 year phase-in period expires, the property is exempt as Qualified Forest Property (it does not pay school operating millage) and the owner is not required to pay the withdrawal penalty associated with removal of the parcel from the CFR status. Thereafter, the owner must comply with the requirements to maintain the property's status as Qualified Forest Property and if he or she does not then the penalties from removal from a Qualified Forest Property program apply. If the 5 year period is not successfully completed, then the CFR withdrawal penalties apply.

P.A. 261 of 2016

Act 261 amends the General Property Tax Act by making minor changes to MCL 211.7jj [the Qualified Forest Property Exemption] to accommodate the Transitional Qualified Forest Property Exemption and to add MCL 211.vv, which exempts TQFP from ad valorem assessment. This exemption provision is set forth below in its entirety:

211.7vv Transitional qualified forest property; tax exemption; property subject to tax under transitional qualified forest property specific tax act; definition.

(1) Transitional qualified forest property is exempt from the collection of taxes under this act for a period not longer than 5 years.

(2) Property exempt from the collection of taxes under subsection (1) is subject to the specific tax levied under the transitional qualified forest property specific tax act.

(3) As used in this section, "transitional qualified forest property" means that term as defined in the transitional qualified forest property specific tax act.

P.A. 262 of 2016

Act 262 amends Section 51108 of the “Natural Resources and Environmental Protection Act” (the provisions relating to withdrawal from the Commercial Forest Reserve (CFR) program) to provide for the waiver of withdrawal penalties from the CFR program if the property successfully transitions from CFR, to become Transitional Qualified Forest Property, and thereafter, at the end of 5 years, to become Qualified Forest Property.

Assessor Responsibilities:

The assessor in the tax collecting unit where TQFP is located has the following responsibilities relative the administration of the exemption:

1. Upon receipt of the recorded TQFP affidavit and a copy of the commercial forest withdrawal certificate by the assessor, the assessor shall exempt the TQFP from collection of ad valorem property taxes collected under the general property tax act, 1893 P.A. 206, as provided in section 7jj[1] of the act, for a period not to exceed 5 years.
2. The assessor shall determine annually, as of December 31, the assessed value and taxable value of each parcel of TQFP which is located within the local tax collecting unit. For purposes of this determination, the taxable value of each TQFP parcel in the first year of the exemption shall be set at an amount equal to the determined state equalized value of the parcel for that year and thereafter, the taxable value shall be determined in the manner provided for in section 27a(2) of the General Property Tax Act.
3. If notified by the Department of Agriculture and Rural Development that a parcel is no longer TQFP, or upon the expiration of the 5 year exemption period, the assessor shall immediately place the property on the tax roll.
4. If the landowner has successfully completed the requirements of the TQFP program when the parcel is placed on the roll, the assessor shall thereafter treat the property as Qualified Forest Property until notified otherwise by the Department of Agriculture and Rural Development. If the assessor is notified by the Department of Agriculture and Rural Development that the landowner failed to complete the requirements of the TQFP program, the assessor shall immediately remove both the TQFP and QFP exemptions.

The State Tax Commission has determined that TQFP shall remain on the ad valorem roll and is included in the equalization process, as provided in section 34 of the General Property Tax Act. Further, the State Tax Commission has also determined that at the end of the 5 year period of exemption, or upon the earlier termination of the exemption due to a change in use or other non-compliance, the assessor shall use the latest year’s Taxable Value as the prior year’s Taxable Value in computing the Capped Value of the parcel.